The Deficit Myth, Michael Roberts, June16, 2020

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June 16, 2020

Stephanie Kelton is professor of economics and public policy at Stony Brook University, a former Chief Economist on the U.S. Senate Budget Committee (Democratic staff) and was an economic policy adviser to Senator Bernie Sanders, the leftist American presidential hopeful. Kelton is a prominent exponent and populariser of what is called Modern Monetary Theory (MMT).

In a new book The Deficit Myth, Kelton explains what is the most important conclusion to draw from MMT – namely, it is a myth that if the government runs large budget deficits (ie spending more than it gets in tax revenues) and borrows the difference, eventually public sector debt will become unsustainable (ie debt repayments and interest will become too much for the government to deal with), leading to sharp increases in taxation or cuts in public spending and possibly a run on the national currency by foreign creditors.

Kelton says that this argument of the 'Austerians' is a myth. In her book, she brings forward the main arguments of MMT: first, that *"governments in nations that maintain control of their own currencies — like Japan, Britain and the United States, and unlike Greece, Spain and Italy — can increase spending without needing to raise taxes or borrow currency from other countries or investors."* The state (national government) controls the unit of currency accepted and used by the public, so it can create any amount of that currency to spend. So the state need not issue bonds to borrow from the private sector, it can just digitally 'print' the money. Indeed, that is what is happening right now during the COVID-19 pandemic, the argument goes. The US administration and others are spending trillions on paying workers to stay at home and businesses to go into hibernation. Yes, it is financing some of this by issuing bonds, but it is the Federal Reserve or the Bank of England that is the main purchaser of these bonds, so in effect 'printing' money to spend.

The argument of MMT and Kelton is that this is a new way of looking at public finances and monetary policy. You see, what nobody has realised until the MMT guys were listened to is that, historically, *"It's the state's ability to make and enforce its tax laws that sustains a demand for them, which in turn makes those dollars valuable."* This is the theory of chartalism, developed by a German economist of the 1920s, George Knapp and others, that money has emerged in modern economies as the result of the state needing to spend and so needing to invent a unit of currency that it can tax people in. So the demand for money by people has been created by the state in order to pay taxes. Money is created by the state and then taken back (destroyed) by taxation. So, you see, the state controls money and therefore can control the modern economy. It can spend without the constraint of rising debt. "*Governments in nations that maintain* *control of their own currencies — like Japan, Britain and the United States, and unlike Greece, Spain and Italy — can increase spending without needing to raise taxes or borrow currency from other countries or investors."*

Kelton makes the point that all MMT supporters make: that *'M.M.T. simply describes how our monetary system actually works. Its explanatory power doesn't depend on ideology or political party."* When I read or hear that from MMT supporters, I am concerned. Of course, truth and reality can be distinguished from ideology, but ideology uses the truth that it wants to reveal – there is never a neutral objectivity. Is MMT really the basis for left-wing or socialist economic policy that so many of its adherents claim? – well, not according Kelton. Apparently, MMT is just as useful to right-wing Republicans as it is to Marxists. Indeed, the idea that governments can run deficits as they please appeals to both left and right in the capitalist spectrum. As Dick Cheney, the extreme right-wing Vice President under George W Bush, put it when military spending rocketed to fund the invasion of Iraq: *"deficits don't matter."*

But is MMT right that money emerges in modern economies because the state's need to spend? This claim of chartalism is certainly open to question. Historians of money and the great economists of classical political economy would deny it. In particular, Marx would not agree. For Marx, money emerges in society as a universal medium of exchange in trade within and between local communities. (Grundrisse: "*The circulation of commodities is the original precondition of the circulation of money"* p165 – not the state). In capitalism, money takes on the role of capital as money buys labour power and means of production for exploitation and the production of value and surplus value *"money itself can exist as a developed moment of production only where and when wage labour exists"* p 223). Money represents value created in an economy (*"It is the comprehensive representation of commodities*", p210).

For Marx, money does not emerge from outside the process of exchange in markets or in accumulation of capital. It is not exogenous, coming from the state, as MMT claims; instead it is deeply endogenous to the capitalist mode of production, the objective of which is to make money. As Marx says in Grundrisse: *"Money does not arise by convention, any more than the state does. It arises out of exchange and arises naturally out of exchange: it is a product of the same." p*165. For Marx, neither the state nor money is exogenous or neutral to the capitalist mode of production. Thus Marxist Monetary Theory, as opposed to Modern Monetary Theory, is ideological. It is on the side of labour, based on the law of value and the exploitation of labour power. MMT has no concept of value or the law of value in capitalist economies, namely that production is for profit not social need; production is for exchange value, not use value; based on the exploitation in production, not on the creation of money for taxation. Profit does not touch the sides of MMT.

But maybe Modern Monetary Theory is right and Marxist Monetary Theory is wrong. In her book, Kelton tells readers of her conversion to the first MMT. It happened when she met the 'father of MMT', former hedge fund manager Warren Mosler. Kelton visited him at his beach house in the tax haven US Virgin Islands. Mosler explained that he got his children to do their chores by insisting that they must be taxed and if they could not pay, then all their privileges would be withdrawn. His tax took the form of his business cards (this was the unit of currency created by Mosler, representing 'the state'). In order to get these business cards, the children had to carry out tasks. Thus the 'Mosler state' created money (business cards) which the people needed in order to pay taxes. Kelton was overwhelmed by this proof of "*how the monetary system works"* and became a convert – and, as the old saying goes, converts can be even more fervent than the original prophets. Kelton is now the loudest supporter of MMT, at least in America.

What Kelton failed to recognise in the Mosler example is that there were chores to be done. Things had to be produced and human labour had to be exerted. So the children must work or the household goes downhill. But the Mosler household was not producing for exchange, but for consumption within the household. The Mosler household was not trading with other households and exchanging goods or services. If they were, then the Mosler business cards would have to represent some *exchange-value,* not just some labour time involved within the Mosler house. The cards would have to be acceptable as a representation of labour time in other households. His 'state' (Mosler) could not decide that. In Grundrisse, Marx explains why having labour chits is not money and cannot operate as money in a capitalist economy, where production (work) is for exchange not for consumption.

Take a topical example. Currently many airlines cancelling flights in the COVID lockdown are trying to avoid refunding customers with money (dollars) and instead are offering vouchers. Anybody can see that these vouchers are not money, not a universal representation of the exchange value of all flights and other commodities, but merely tickets with that particular airline and so worth only the dollar price of trips with that airline alone. Inside that one airline house, these vouchers are 'money', but nowhere else.

The idea that it is the state's power to tax that is an explanation of the emergence of money and exploitation seems far-fetched, anyway. Kelton claims that *"the British Empire and others before it were able to effectively rule: conquer, erase the legitimacy of a given people's original currency, impose British currency on the colonized, then watch how the entire local economy begins to revolve around British currency, interests and power."* Do we really think that British imperialism worked because it controlled the currency of other nations? Would it not be more accurate to say that because British imperialism imposed through force and conquest its control over many nations, it was able to exploit its people and then control their currency? Does the US rule the world because it has the international reserve currency, the dollar; or did the dollar become the international reserve currency because US imperialism dominated the world in trade, technology, finance and military power?

Kelton cites Mosler's comment that *"Since the U.S. government is the sole issuer of the currency, he said, it was silly to think of Uncle Sam as needing to get dollars from the rest of us."* Well, yes, that's ok for Uncle Sam, but for many countries exploited by imperialism, they do not control their own currencies and are heavily dependent on the decisions of foreign multi-nationals and financial institutions. Can those governments print money without constraint to spend and tax? Ask Argentina and other emerging economies in the current COVD-crisis. Their 'fiscal space' is very much constrained by international capital. MMT is no use to them.

But the real issue for me with Kelton's book and with MMT is whether knowing that governments can spend money and run deficits without the constraint of the burden of rising debt is really saying anything new or radical. Keynesian economic theory has always argued that government deficits and rising public sector debt need not become 'unsustainable', as long as the extra spending produced faster economic growth. If real GDP growth is higher than the interest cost on the debt (g>r), then (public) debt can be sustainable. All MMT seems to be adding is that governments don't even need to increase debt in the form of government bonds; the central bank/state can 'print' money to fund spending.

But there are constraints on unlimited government spending that MMT admits to. Kelton points out: *"the only economic constraints currency-issuing states face are inflation and the availability of labor and other material resources in the real economy."* Two big constraints, it seems to me. How would inflation arise? According to MMT, it is when unused capacity in an economy is used up, so that there is full employment of the workforce and given technology. After that, if there is no extra capacity, more government spending financed by printing money will be inflationary. If governments keep printing money to spend, inflation of prices will take place because supply has reached its maximum.

But Kelton says that this constraint allows us to concentrate on the real issue:*""M.M.T. asks us to focus on the limits that matter. At any point in time, every economy faces a sort of speed limit, regulated by the availability of its real productive resources — the state of technology and the quantity and quality of its land, workers, factories, machines and other materials. If any government tries to spend too much into an economy that's already running at full speed."*

Exactly! And here the real issue is exposed. How does a capitalist economy expand capacity, investment and production? There are limits on its ability to do that. But MMT actually does not focus on these 'limits that matter', only on the one that does not matter (so much) – deficits and debt. More important to understand is *why* is there unused capacity; and *why* growth drops and there are slumps. Indeed, *why* are there regular and recurring slumps in capitalist economies? These questions are not dealt with or answered by MMT. According to Kelton, *"M.M.T. simply describes how our monetary system actually works".* Even if that were right, which I have doubted above, that does not take us very far.

In contrast, Marxist monetary theory does deal with the 'constraint' that matters, because it based on the law of value; namely that value is created by the exertion of human labour. Under capitalism, human labour power is bought by capital (which owns the means of production) to exploit and produce value and surplus value (profit). Under capitalism, value is not created by the state issuing money; instead, money represents value created by the exploitation of labour power. Printing more money so that governments can spend more money will not produce more value *unless* labour power is exploited more by capital as a result.

Kelton says that *"In 2020, Congress has been showing us — in practice if not in its rhetoric — exactly how M.M.T. works: It committed trillions of dollars this spring that in the conventional economic sense it did not "have*." If that is right, it is not good news for MMT. For will all these trillions deliver more output and more resources to meet social need? Much of this largesse from the 'digital printing' of money into bank reserves will not end up as more output, employment and investment. Most of the trillions are either being hoarded by the big companies, while raising more debt at zero rates; or being invested in the stock and bond markets for capital gains. It will not go into in increasing capacity in productive sectors, because the profitability of capital is very low – as I have shown in other posts. MMT has nothing to say about this, instead resting on its faith in increasing the quantity of a state currency unit. Marxist theory does: hoarding money tells you that money has become a fetish, the objective in itself, rather than to be used as capital to extract more surplus value from the exploitation of labour in production.

It may be an 'Austerian' myth that governments cannot run deficits and need to 'balance the books'. But it is an illusion to reckon that the crisis-prone nature of capitalist production can be 'managed' by means of 'money artistry', that is, by the manipulation of money, credit and government deficits. That's because the structural causes of the crises and under-capacity lie not in the financial or monetary sector or the fiscal sector, but in the system of globalized capitalist production.

MMT and Kelton do not touch on the important issues of the failure of capitalism to deliver social needs and the underlying exploitation of the many by the few. On those questions, MMT has nothing to say and different MMTers have different views. I'm sure most, if not all MMTers (like traditional Keynesians), want governments to intervene to meet social needs. Some (like Bill Mitchell) support socialist measures to replace the law of value and the capitalist mode of production; some (like Kelton) don't. Ah, says Kelton and MMTers, that is not the point of MMT. We just want to show that it is a myth that the state cannot run up deficits without consequences. Again, that does not seem very new, radical and not even correct in all circumstances.